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November 26, 2013

VIA ELECTRONIC FILING

Mrs. Jocelyn G. Boyd
Chief Clerk / Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29211

**RE: Application Regarding the Acquisition of Progress Energy, Incorporated by Duke Energy Corporation and Merger of Progress Energy Carolinas, Incorporated and Duke Energy Carolinas, LLC – Informational Filing On Employee Transfers
PSC Docket No. 2011-158-E**

Dear Mrs. Boyd:

This letter is an informational filing intended to update the Commission on upcoming employee transfers within the organization of Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, Inc. (“DEP”) (collectively, the “Companies”) at the end of the first full calendar year (2013) after the close of the merger between Duke Energy Corporation and Progress Energy, Inc. (“Merger”).

Effective January 1, 2013, DEC transferred approximately 1300 employees from Duke Energy Business Services (“DEBS”) to DEC to comply with Regulatory Condition No. 5.3, as approved by the Commission in its *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct*, issued June 29, 2012 in Docket Nos. E-7, Sub 986 and E-2, Sub 998 (“Merger Order”). As of January 1, 2013, the transfer was completed, and the approximately 1300 DEBS employees were transferred to DEC.

Subsequent to the close of the Merger close and to the transfer of the 1300 employees, DEC and DEP have reviewed other areas of their organizations with the aim of ensuring that the functions provided by DEP and DEC employees are aligned with the Companies’ Regulatory Conditions and Code of Conduct, as well as with the affiliate service agreements on file with the Commission.

One such function that the Companies have reviewed is the Supply Chain or Materials Management function, which is currently housed in DEBS. The Companies believe that its centralized model for purchasing and managing materials creates efficiencies that reduce costs for DEC and DEP customers. Thus, the Companies intend to transfer 151 DEP employees and 117 DEC employees to DEBS to perform Supply Chain functions.

Regulatory Condition No. 10.1 provides, in pertinent part, that DEC and DEP shall file notice with the Commission 30 days prior to the initial transfer of any employees from DEC or DEP to DEBS that involve services or functions other than those of a governance or corporate type nature that traditionally have been provided by the service company or potentially would have a significant effect on DEC's or DEP's public utility operations. This transfer of employees to DEBS involves functions of a corporate type nature that have traditionally been provided by the service company. The Materials Management function has been provided by DEBS since the time of the Cinergy Merger. Moreover, the transfer of these employees does not have a significant effect on DEC's or DEP's public utility operations.

Similarly, the Companies have determined that certain legacy DEP employees are now performing services that have been previously performed by DEBS. DEP and DEC have identified 178 DEP employees working in services that were "carved out" for DEBS by Regulatory Condition No. 5.3. In addition, DEC and DEP have determined that 18 employees of DEC are performing DEBS "carve out" services. Regulatory Condition No. 5.3 provides, in pertinent part, that employees of "core utility functions" that is, functions essential to the provision of electric utility service to retail and historically-served wholesale customers, must be employees of DEC or DEP and not employees of DEBS and the Progress Energy Service Company. Regulatory Condition 5.3 lists the core utility functions, but also provides that these functions contain certain specific "carve outs" that may remain in DEBS. For example, employees performing Electric Transmission and Distribution Operations pertaining to DEC and DEP are now DEC and DEP employees, and not employees of DEBS. A sub-function within the Electric Transmission and Distribution Operations Organization, however, is Grid Modernization. Because employees performing Grid Modernization services benefit by sharing their experiences and information across the several jurisdictions of Duke Energy Corporation, employees performing Grid Modernization services were specifically "carved out" from the transfer to DEC and those employees were allowed to remain in DEBS.

A complete list of these "carve out" services follows:

- Grid Modernization
- Enterprise Project Management Center of Excellence
- Project Development and Initiation
- Fossil/Hydro Retrofits
- Performance Improvement

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- Health and Safety
- Environmental Programs and Compliance- Water/Natural Resources
- Environmental Programs and Compliance – Air & Waste Programs
- Environmental Support Systems
- Central Programs – Inspection Services
- Central Programs – Strategic Programs
- Central Programs – Doc Cntrl/Config Mgmt
- Application Support
- NERC/CIP
- Subject Matter Experts – Fleet Consulting Services
- Discipline Engineering
- Combustion Turbine Services
- Emerging Technology
- Nuclear Development
- Projection Cost Modeling and Data Management

As noted above, the Companies intend to make this transfer of 329 DEP employees and 135 DEC employees to DEBS, effective January 1, 2014. The process to begin these transfers begins December 2, 2013. If this transfer process is begun any later, the employees may not be timely transferred to their new payroll company, which can result in adverse tax implications for the employees and the Companies.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in blue ink, reading "Timika Shafeek-Horton". To the right of the signature, the initials "BLF" are written in blue ink.

Timika Shafeek-Horton
Deputy General Counsel

TSH/bml

cc: Nanette Edwards, ORS
Courtney D. Edwards, ORS
Parties of Record